



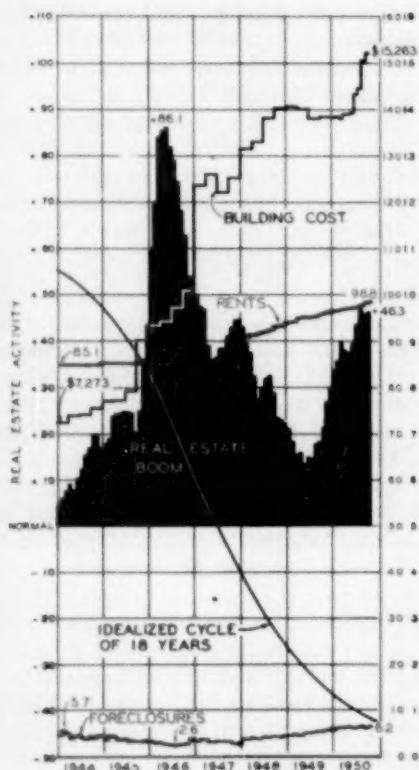
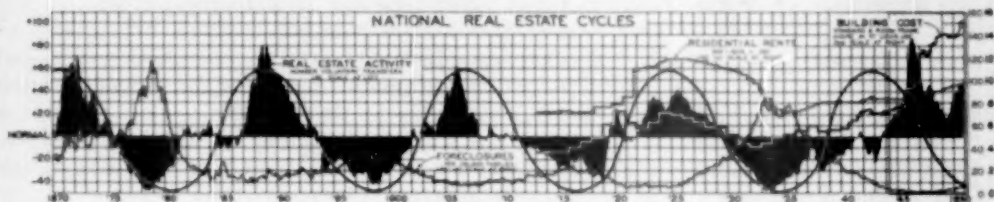
The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

Number 54



REAL ESTATE ACTIVITY

Results from the first half-month of Regulation X's operation show that during October, real estate activity rose a fraction of a point from 46.0 to 46.3 points above the long-range computed normal. As a matter of fact, activity in several cities rose to a higher level than it occupied last summer. Houston, Tulsa, Washington, D. C., and Seattle were among the leaders in real estate activity, while Portland, Oregon, reported the biggest decline during October. There is no way of knowing just what portion of the changes in activity took place following October 12, and it is still too soon to appraise the extent of Regulation X's ultimate impact on the real estate industry. However, it seems safe to predict that no sudden collapse will follow. As we have indicated before, a slow decline is more probable.

The first amendment to Regulation X (dated November 14) has cleared away the confusion and inequalities resulting from the August 3 deadline. This amendment releases from con-

trol all one- or two-family residential units that were started before October 12, 1950, provided credit arrangements are completed by May 1, 1951. This means that one- or two-family units started before October 12 may still be financed without control up to May 1, 1951.

Some of the inconvenience arising from another section of the Regulation has also been partially alleviated. The Regulation states that it shall not apply to any firm commitment to extend credit before October 12, 1951. As we all know, a good many firm commitments were made verbally or by implication before October 12. The Regulation gave the lender thirty days (or until November 12) to send a letter or statement to the Federal Reserve Bank in his district explaining such unwritten agreements. This time limit has now been extended to January 1, 1951.

REAL ESTATE MORTGAGE ACTIVITY

In October mortgage activity declined a fraction of a point from an index reading of 212.5 to 211.8. It is still virtually at its postwar peak. As is the case in real estate activity, we think that mortgage activity will undergo a slow decline, but it will be several months before the full impact of the new credit regulations is felt.

One result of Regulation X and its companion regulations should be an increase in home improvement loans. Some alert lenders have already started promoting public interest in this type of loan and a great deal can be done toward minimizing the amount of business lost to the new restrictions. From 1934 to 1949 there were almost \$4 billion in Title I loans made. The largest volumes were in New York, Pennsylvania, Illinois, Michigan and California. This \$4 billion includes only Title I loans, so the total volume of home improvement loans was much higher.

One point that many borrowers may overlook in the credit restrictions is the fact that the heavier down payments save them money. On a \$10,000 loan (5% - 20 years) with a 10% down payment the total cost is \$15,250, whereas a 20% down payment results in a total cost of \$14,700 - a saving of \$550.

There is one quirk in FHA credit regulations that is apparently causing lenders some difficulty, and that is the "yardstick" FHA uses in determining the size of the loan to be allowed. Each FHA (Section 203) loan application is checked against two tables and the lower value obtained is used to set the upper limit of the loan. One table shows the amount that can be lent under the new regulations and is based on a certain percentage of the bona fide value (or sales price). The other table shows the amount that can be lent under the FHA pre-Korea regulations and is based on a certain percentage of FHA valuation. In other words, one table uses the sales price as its basis of determination, while the other table uses FHA appraised value as its basis; whichever value is the lower is the one used.

For example, suppose a lender wishes to make a loan on a house with a sales price of \$15,000. Under the new regulations the schedule shows that \$10,700 is the maximum amount that can be lent. The FHA valuation on this property shows a figure of \$13,000 and the pre-Korea regulations permit an 80% loan, or \$10,400. In this example the lower amount is derived by using the pre-Korea regulations. We expect to publish a group of these tables very shortly.

RESIDENTIAL CONSTRUCTION

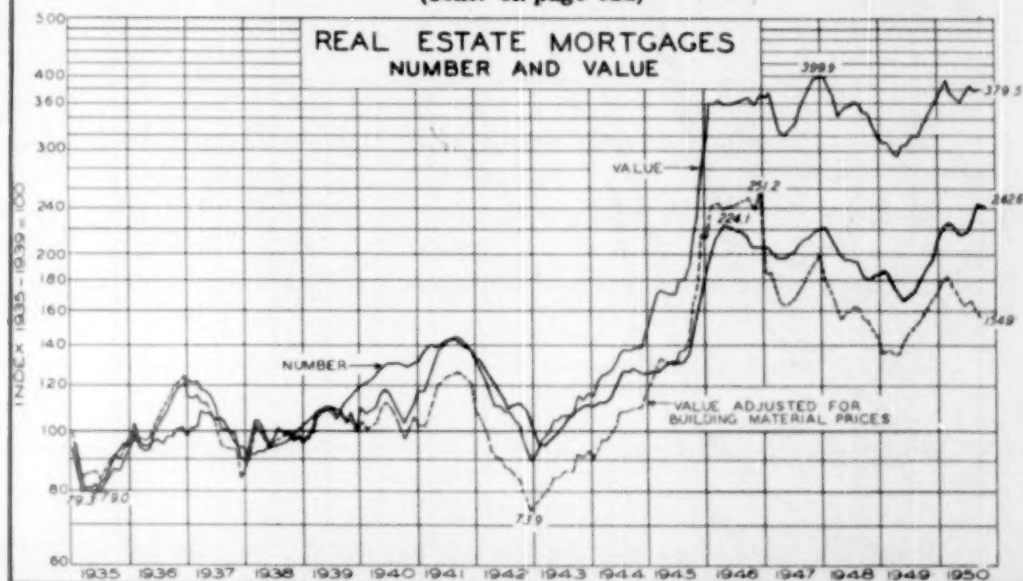
There have been 1,209,100 nonfarm residential units started during the first ten months of 1950. This is 42% more than the 851,300 started during the similar period of 1949. During October 1950 the number of starts reached 103,000. This is the first month in 1950 that the number of starts has been below that of the corresponding month of 1949. On the other hand, October 1949 was an abnormally high month. As a matter of fact, residential construction volume reached its 1949 peak during October, a month when a seasonal decline usually becomes apparent.

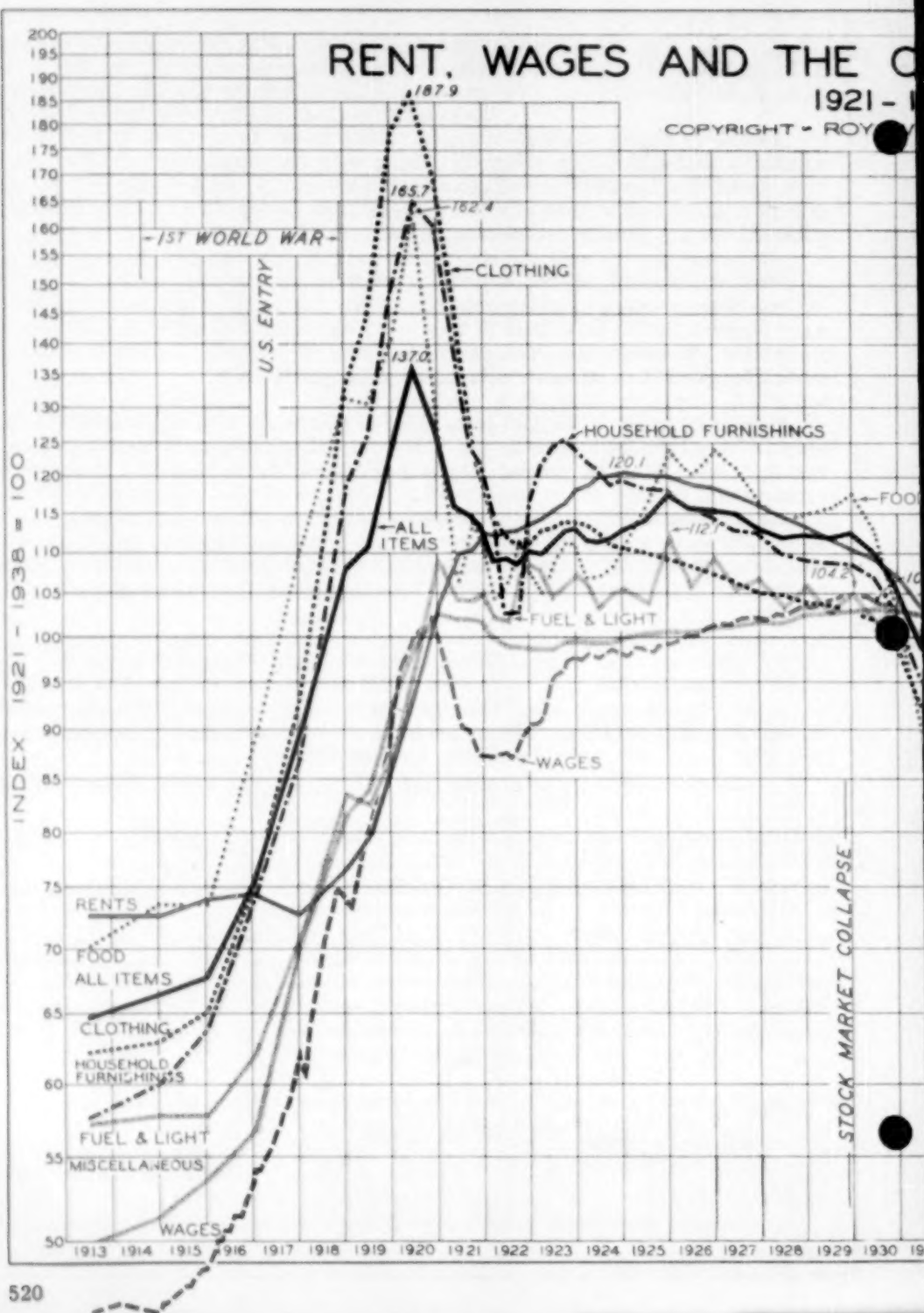
We doubt whether the recent credit restrictions are going to affect 1950 building volume appreciably. To begin with, there are large numbers of houses that were planned for the later part of this year, and a flood of additional applications were filed just before the October 12 deadline. In addition, it is still possible to build a large number of houses under the new regulations.

A guess of from 1,350,000 to 1,375,000 starts for 1950 would seem reasonable. If this total is achieved, the 1951 goal of the government housing authorities (800,000 - 850,000 starts) means a decline of from 39 to 40% in residential construction volume during next year. A decline of this magnitude would mean a drop of about 20% in total construction providing other construction proceeds at its 1950 pace during the coming year. In order to keep the total construction volume at its 1950 level, an increase of 32% in nonresidential and public construction will be necessary in 1951. At this time the chance for such an increase seems remote.

RESIDENTIAL RENTS

The old familiar fight is shaping up again. In the coming battle over control or decontrol of residential rents the national emergency will play a powerful and probably decisive role. The final decision will lie somewhere between (cont. on page 522)

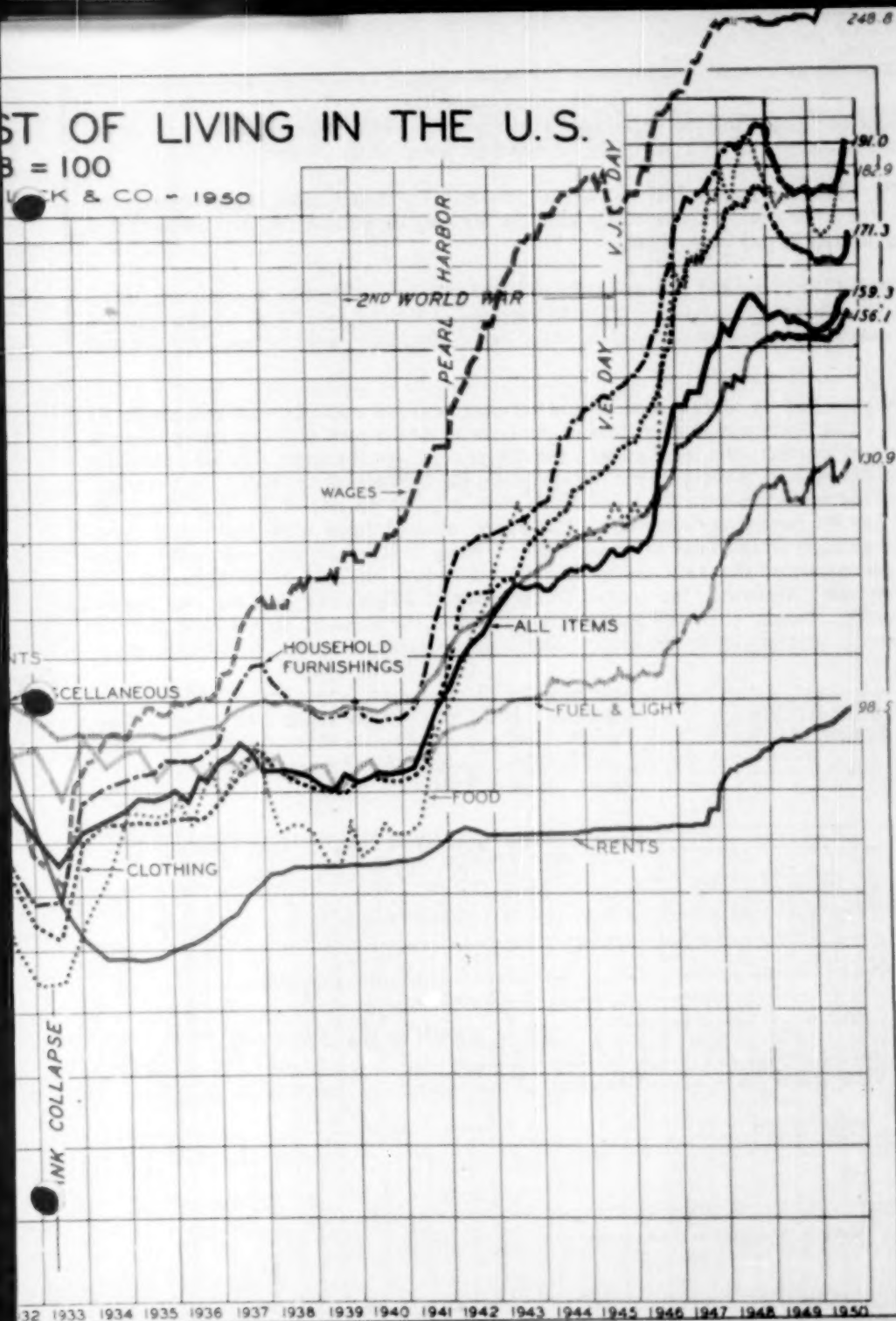




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(cont. from page 519)

outright decontrol and the extreme measures advocated by the Housing Expediter, and the compromise will probably be more in favor of Mr. Woods.

The chart on pages 520 and 521 shows how far rents have lagged behind the prices of other cost of living items and how far they have lagged behind the tenant's rising ability to pay (wage line).

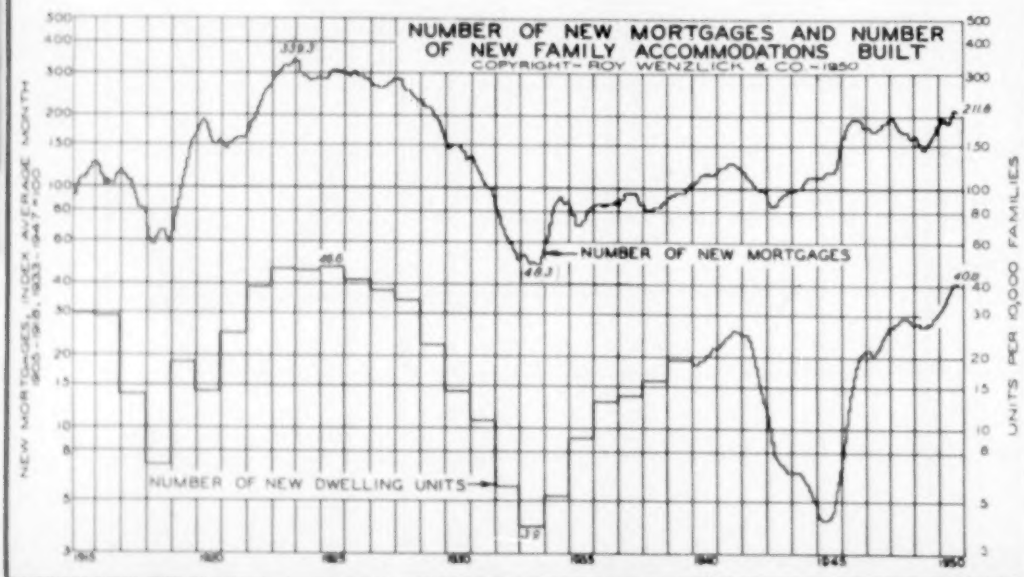
The value of rental income continues to decline while the purchasing power of wages continues to climb. This is because prices of most cost of living items have risen to near-record heights while rents have been kept below their normal level.

On page 523 we show a comparison between rent and cost of living indexes in 34 cities. The figures on the left side of the table show the cost of living index level at the end of the war, the level today, and the percentage increase. In all cities the cost of living has risen between 25 and 40% since September 1945. On the right side of the table is shown the level of the rent index at the end of the war, the level today and the percentage increase. Naturally, none of these cities has a rent level nearly so high as the cost of living index. Even in the following cities that have been decontrolled the rent index is still far below the cost of living index. In Birmingham, Alabama, the cost of living index is 28% higher than the rent index; in Houston, Texas, it is 32% higher; in Milwaukee, Wisconsin, it is 41% higher; in Richmond, Virginia, it is 45% higher; and in Jacksonville, Florida, it is 51% higher.

RESIDENTIAL CONSTRUCTION COSTS

Since June of this year, the cost of building our standard six-room frame house has risen 9½% in the St. Louis area. The November cost is \$15,263, or \$1,322 above the June figure of \$13,941. Inci-

(cont. on page 524)



RENTS AND THE OVER-ALL COST OF LIVING FOR SELECTED CITIES

Cost of Living Index 1921-1938 = 100			CITY	Residential Rent Index 1921-1938 = 100		
End of War Sept. 1945	Present Nov. 1950	% Change		End of War Sept. 1945	Present Nov. 1950	% Change
115.1	154.5	34.2	Atlanta, Ga.	79.6	95.4	19.8
121.6	163.8	34.7	Baltimore, Md.	89.7	101.5	13.2
114.3	152.8	33.7	Birmingham, Ala.	86.8	119.2	37.3
111.5	150.6	35.1	Boston, Mass.	90.1	102.9	14.2
117.0	156.6	33.8	Buffalo, N. Y.	95.0	104.0	9.5
111.0	156.6	41.1	Chicago, Ill.	81.9	102.3	24.9
118.3	161.1	36.2	Cincinnati, Ohio	95.3	105.3	10.5
119.8	160.4	33.9	Cleveland, Ohio	89.4	100.3	12.2
115.1	154.1	33.9	Denver, Colo.	85.4	99.2	16.2
115.7	155.9	34.7	Detroit, Mich.	91.4	103.5	13.2
115.4	160.8	39.3	Houston, Tex.	90.1	121.4	34.7
116.0	156.8	35.2	Indianapolis, Ind.	90.1	104.8	16.3
120.1	158.6	32.1	Jacksonville, Fla.	82.0	104.6	27.6
114.1	149.2	30.8	Kansas City, Mo.	82.1	96.9	18.0
114.4	146.6	28.1	Los Angeles, Calif.	76.7	92.3	20.3
116.5	155.1	33.1	Manchester, N. H.	86.1	93.4	8.5
117.0	157.5	34.6	Memphis, Tenn.	84.9	97.9	15.3
113.4	157.4	38.8	Milwaukee, Wis.	86.6	111.7	29.0
116.9	161.9	38.5	Minneapolis, Minn.	90.4	112.2	24.1
116.5	154.3	32.4	Mobile, Ala.	87.9	100.8	14.7
121.9	162.1	33.0	New Orleans, La.	88.1	96.4	9.4
116.4	152.8	31.3	New York, N. Y.	88.8	93.5	5.3
119.1	158.5	33.1	Norfolk, Va.	86.7	98.6	13.7
114.2	153.7	34.6	Philadelphia, Pa.	86.1	98.6	14.5
115.5	155.5	34.6	Pittsburgh, Pa.	83.5	95.5	14.4
114.2	152.8	33.8	Portland, Maine	92.1	100.3	8.9
122.5	162.3	32.5	Portland, Ore.	86.7	99.1	14.3
114.4	152.4	33.2	Richmond, Va.	86.4	105.0	21.5
114.3	157.8	38.1	St. Louis, Mo.	75.4	88.1	16.8
121.8	161.6	32.7	San Francisco, Calif.	89.0	98.7	10.9
121.5	155.6	28.1	Savannah, Ga.	84.9	95.3	12.2
116.0	157.0	35.3	Scranton, Pa.	81.7	96.3	17.9
120.3	159.2	32.3	Seattle, Wash.	88.6	100.8	13.8
119.6	156.5	30.9	Washington, D. C.	92.7	99.3	7.1
115.5	155.7	34.8	UNITED STATES	86.5	99.3	15.3

(cont. from page 522)

dentally, these costs do not include certain "gray market" prices because information on them has been very unreliable. Therefore, we have used the dealer-to-contractor, delivered-to-the-job prices quoted by our regular sources.

The Veterans Administration and the FHA are now out from under the July freeze insofar as determining replacement cost is concerned. Each is on a different basis, however. VA is authorized to use the current cost level or the cost level of October 12, 1950, whichever gives the lower value. (In St. Louis this is the October 12 level.) On the other hand, FHA is (more or less) on a "current cost" basis in figuring replacement cost. It should be remembered, however, that these two agencies do not use the same methods in arriving at replacement cost and even though both may use the same period as a general basis, their replacement costs on identical buildings will show some variation.

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